"A Social Security Swindle"
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Sometimes mixed metaphors say it best. Federal Reserve Chairman Alan Greenspan's call for significant reductions in Social Security can best be described as a case of the fox in the chicken coop crying wolf. He is greatly exaggerating the dimensions of a problem that he helped create.

Greenspan recently said, "We have promised more than our economy has the ability to deliver to retirees." He argued that we have the choice either of raising payroll taxes, which are regressive and economically burdensome, or reducing cost-of-living adjustments while raising the retirement age. The assumption that leads him to pose this stark choice is that the federal government does not have enough revenue available to deliver the benefits we have promised retirees.

What he omitted to note is that if all of the payroll taxes that have been and will be paid into Social Security are made available for Social Security payments as they are supposed to be, the system is entirely solvent until 2042 at least.

When the Bush administration took office, we were on the path to accumulating the level of surpluses sufficient for the federal government to meet this legal and moral commitment to Social Security without causing severe fiscal distress. Then came the deficits of the last four years, caused in substantial part by the large tax cuts pushed through Congress by President Bush, predominately for the benefit of our wealthier citizens and with the strong support of Greenspan.

Greenspan argued in 2001 for the first Bush tax cut on the grounds that if we did not enact it, the federal government would have too much money by 2010. It is the absence of this "too much money" that now leads him to claim that we cannot afford to meet our Social Security commitments.

Greenspan rests his case not just on the revenues of the federal government but on the broader economic picture. It is unlikely, he believes, that we will produce enough wealth to pay the retirement benefits the law currently calls for.

He stressed that the critical element in determining this will be the level of savings in our economy, and he notes that "critical to national saving will be the level of government, specifically federal government, saving." But he has helped lower that rate below what he says we need.

To quote the July 2004 Federal Reserve Monetary Policy Report: "As of the first quarter of 2004, national saving…was still equal to just about 2 ½ percent of GDP, compared with the recent high of 6 ½ percent in 1998." Why is national savings this year only one-third of what it was six years earlier? The cause is "the deterioration in the unified budget since 2000." Specifically, "measured net of estimated depreciation, federal savings fell from 2 percent of GDP to minus 4 percent of the GDP over this period."

Of course, a major reason we face this situation is the Bush tax-cutting that Greenspan endorsed. According to the report, "In large part, the rise in the deficit is attributable to further rapid increases in spending on defense and other programs and the loss of revenues resulting from the tax legislation enacted in recent years."

We do face a problem in the financing of Medicare, but that is best seen as part of our need to overhaul the way in which we pay for medical care in general. But as to Social Security, it does not begin to need any additional resources until 2042, and maybe not then if economic growth is strong.

Even then, the choices are not simply raising the payroll tax or cutting back substantially on benefits but could include making some general revenues available for some of the expenditures now covered under Social Security.

That would, of course, be difficult by a continuation of the policy of simultaneously waging wars and enacting periodic large tax cuts, and I would be heartened if Greenspan's concern over the consequences of this pattern led him to be more supportive of our efforts to break it.